

REMARKS

OF

J. H. BENTON, JR.,

ON

BILL TO ESTABLISH A MAXIMUM RATE OF TWO
CENTS A MILE ON MASSACHUSETTS
RAILROADS

BEFORE THE

JOINT COMMITTEE ON RAILROADS OF THE
LEGISLATURE,

MARCH 13, 1903.

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CONTINUED HEARING ON BILL TO ESTABLISH
A MAXIMUM RATE OF FARE OF TWO
CENTS A MILE UPON THE STANDARD
GAUGE RAILROADS OF THE COMMON-
WEALTH.

COMMITTEE ON RAILROADS,
ROOM 446, STATE HOUSE,

FRIDAY, March 13, 1903.

THE CHAIRMAN. — Well, gentlemen, we have not here a quorum of the committee, but, if you have no objection, we will proceed with the hearing on bills 797 and 1048. We heard the petitioners the other day.

STATEMENT OF J. H. BENTON, JR., ON BEHALF OF THE NEW YORK, NEW HAVEN & HARTFORD R.R. CO.

MR. CHAIRMAN AND GENTLEMEN: I want to say a few words about this matter, more by way of information than by way of argument. The bill is one which establishes a maximum rate of two cents a mile, and the proposition is not to increase lower rates. Now, there is a good deal in what Mr. Coolidge said about the unwisdom of the Legislature tying its hands as to rates by establishing a maximum rate. Mr. Coolidge is very clear that when that is done, the Legislature cannot enforce a rate below that rate at all. That would seem to be the doctrine of the Supreme Court in that case to which he refers.

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The Lake Shore & Michigan Southern R.R. v. Smith, 173 U.S. 684. It was a very elaborate opinion, and it does logically lead to Mr. Coolidge's conclusion.

But aside from that you naturally want to know, so far as you can from the brief examination you can make here, how

this rate would affect the revenues of the railroad companies. With regard to the New York, New Haven & Hartford road, we have made such examination as we can, and we find this result: The total passenger mileage of the New York, New Haven & Hartford Railroad is 1,024,201,282. Its passenger revenue was \$17,866,424.51 for the last year, ending June 30, 1902. The total business at less than two cents per mile amounted to \$2,846,489.23. The business at two cents per mile or more amounted to about \$15,000,000. The result is that if only two cents per mile had been received for that business which now pays two cents or more, the revenue would have been \$838,074.40 less than it was; that would be the loss at two cents per mile as a maximum, leaving other rates where they are.

This means that if the New York, New Haven & Hartford Railroad should put in operation for the coming year a two-cent rate, no rate above two cents, what this bill calls for, and its other rates below that remained unchanged, its revenue would be \$838,074.40 less than it would receive on its present rates from the same business.

That is for the whole New York, New Haven & Hartford Railroad. Of course, to get at it in Massachusetts, where this bill is to apply, we have to approximate, and we have done it in this way: The total mileage of the road is 2,027 miles; its mileage in Massachusetts is 881 miles, taking its leased lines and so forth, which include the Providence and the Old Colony roads, the canal road, etc.

That would make, if the reduction in revenue was exactly in accordance with the mileage, a reduction of \$364,254.34 in Massachusetts.

That is, the loss, under this bill, on the whole system would be \$838,074.40, and the loss in Massachusetts in proportion to the mileage would be \$364,254, if you could confine it to Massachusetts. But the volume of travel in Massachusetts in that portion of the state which is served by the New York, New Haven & Hartford Railroad is very

much greater than the average volume of travel on the whole system ; that is, the travel is larger, according to the mileage, on the New York, New Haven & Hartford Road in Massachusetts than it is in Connecticut and Rhode Island and New York. Our accountants think that a conservative estimate of the loss in Massachusetts would be not 43 per cent., which is the mileage percentage, but 50 per cent., or 7 per cent. more. I think myself they have not put it high enough. But 50 per cent. of the entire loss would make a reduction in our revenue of \$419,037.20. Now, that is an estimate which I submit to you as the best we can make in the time we have had of the effect this act would have upon the revenues of the New York, New Haven & Hartford Railroad in Massachusetts, reducing them about \$420,000.

In passing, I want to call your attention to certain specific reductions which we have to make certainly by the first of July, if not before, in a single district in Massachusetts ; that is, the suburban district of Boston. There a reduction is to be put in force on a uniform basis of a five-cent rate at certain stations, which will amount, upon the present basis of travel, to about \$36,000. Now, that has been brought about, we have been forced to do that, because there was established at one time a five-cent rate to Jamaica Plain ; and the Providence road, the Old Colony, and the New England road all ran out from Boston. They made suburban rates which were lower at some points than they ought to have been. And when the roads came together in the New Haven, or came under lease to the New Haven, there was disproportion in the rates, and the people complained of it. They went to the Railroad Commissioners, who recommended that the rates on the New England road to Bird Street and Dudley Street stations should be reduced to a five-cent basis, like Jamaica Plain, and the company did it, making a loss of about \$19,000. Then the Dorchester people came in, and they have been here this year, and they have been to the Commissioners as to the time when a similar

reduction to them is to be put into effect. It will be by July first, if not before. Now that \$19,000 and that \$36,000 reduction amounting to over fifty thousand dollars a year is wholly independent of the reduction I am talking about from a two-cent rate. I am only stating this to you to show that we are forced into that reduction to remove discrimination. We always have to reduce. We are never permitted to increase to remove discrimination. We have also, on the recommendation of the Railroad Commissioners, extended the use of our mileage books by issuing them for five hundred miles instead of one thousand miles, and thus extending their use and reducing rates and revenue.

I ought to say also that the New Haven road, on all business that goes over it to the north, or from the north, gets only two cents a mile now. If a man starts from the Grand Central Station in New York to go to Montreal or to the White Mountains, or starts from there to go to New York, he buys a ticket at a gross sum which may perhaps amount to a rate of two and a quarter cents or more per mile, but the proportion which the New York, New Haven & Hartford gets is only two cents a mile for the distance over its line. As between the New York, New Haven & Hartford and the Boston & Maine its proportion would be two cents a mile for the distance from New York to Boston. That has been the case for years. The Boston & Maine Railroad not having as great density of traffic, it is entitled to a greater proportion than the mileage distance.

That is the effect this bill would have upon us provided there was no increase in traffic or travel — *a loss in receipts of about \$420,000 a year on the passenger business in Massachusetts*. I do not believe there would be any increase of travel beyond what would naturally come from the growth of the community and from the use of better facilities. The better facilities you give people, the more they will like to travel, perhaps; but you must bear in mind that we are losing passengers from competition with

electric roads all the time. They are improving their facilities, they are linking up their lines, they are more and more taking away from the number of passengers that we carry; and I do not believe that a two-cent rate, while it would take away this large sum from our revenues, would increase to any perceptible degree the number of people we should carry.

The only other matter to which I wish to call your attention is what we have to pay out. A railroad company is only an instrumentality by which the public get money to maintain highways. The companies have to get this money from private people. Stock is sold, bonds are sold. They are bought by people who have money to invest; they go into savings banks, to private investors, big and little. The New Haven stock is very, very largely held in small amounts. Of course the outsider looks on and says that Mr. So-and-so has got one thousand shares, or two thousand shares. But the men who hold any considerable amount of this stock, who are not trustees for others, are very few. A very large amount of this stock is held by those who are trustees for numerous people, who are really the beneficiaries. There is an enormous amount of this stock that is held in 5-share, 10-share, 3-share, 2-share, 25-share, and 50-share lots by people who think it is a safe investment. And the bonds are held in the same way. The capital invested in the New York, New Haven & Hartford Railroad is very widely distributed among people of small means, either held directly by them or indirectly by trustees who hold it for them, or by the savings banks and institutions where they put their deposits; so that the real stockholders, *the real owners of this property that you are dealing with, are the small investors.* And this is equally true of the Boston & Albany Railroad. I hold some of the stock of the Boston & Albany Railroad and stock of the New Haven Railroad as trustee, several hundred shares of each; but when I get the dividends they are split up and go to different persons who live on them, widows and children.

Now, the railroad companies have had to increase their capitalization very largely in the past few years for needed public improvements. The Legislature has commanded a good deal of it, and properly, I think. I hold in my hand a schedule of the amounts which have been paid out since the lease of the Old Colony to the New York, New Haven & Hartford in 1893 for the abolition of grade crossings. It amounts to \$6,131,686.79, paid out on the Old Colony alone; not on the Providence or the New England, but on the Old Colony. Where did that money come from? Why, it came from the sale of Old Colony stock at auction, at a price exceeding \$200 a share, for the last part of the time; none of it, I think, sold for less than \$175, beginning away back in 1894 and 1895. And to-day, in order to provide for the money for the abolition of grade crossings in Fall River, in Attleboro, in Worcester, in Boston, and in other cities and towns on its line, the Old Colony has, under the orders of the Railroad Commissioners, advertised its stock for sale. This stock will bring \$209 or \$210 per share, and *the person who buys it will get about 3.3 per cent. on the money he invests.*

In addition to this, which has been paid out up to the first of January, 1903, for the abolition of grade crossings on the Old Colony road, there are proceedings pending for the abolition of crossings in New Bedford, Attleboro, Walpole, Hyde Park, Boston [Dudley Street], Taunton, and other places. And the aggregate payments which will be required to make the improvements will be more than six million dollars. Where is this money coming from? It can only come from the sale of stock at auction or the issue of bonds. When the Old Colony bought of the Commonwealth last winter, in Boston, a piece of land, and paid \$1,000,000 for it, it issued its bonds at $3\frac{1}{2}$ per cent., and they brought a slight premium. Now, the point I wish to make is: that the public is thus *getting money for improvements in the railroad highways at a low rate.*

But passing that for the present, let me call your attention to some other expenses of the New Haven. Take the Union Station in Boston. The proportion of that expense of \$15,000,000, applicable to the New York, New Haven & Hartford railroad, is more than \$10,000,000.

The land purchased in Boston, exclusive of that which was bought of the Commonwealth, reaches about \$2,000,000 more. When you add up these items and the expense of grade crossings to be abolished, you have at least \$19,000,000, in addition to the \$6,000,000 that has been spent on the Old Colony. This year the New Haven debentures will turn into stock, and that will add to the dividend to be paid. It will also add to the taxes. And figuring 4 per cent. upon the expenses in sight and 4 per cent. additional upon the amount of the debentures, you will find that \$880,000 is required every twelve months to pay the interest, or more than \$70,000 a month.

Let me also call your attention to the tax the New Haven pays. In the year 1899 the taxes were \$2,171,000, which is 5.8 per cent. of the gross earnings. In 1900 they were \$2,484,000, or 6.1 per cent. of the gross earnings; in 1901 they were \$2,367,000, or 5.9 per cent. of the gross earnings; in 1902 they were \$2,410,000, or 5.5 per cent. *of the gross earnings.*

When this stock goes out for these vast sums of money, the Old Colony stock at \$210 a share, it is immediately taxed by the Commonwealth of Massachusetts *at that price*, and the New Haven pays it. The taxes increase as we issue stock for money at this low rate. Now, I am not here to say that the New York, New Haven & Hartford Railroad is not a safe and sound investment. I think it is if the railroads are treated fairly by the Legislature, as they have been as a rule. But I am here to call your attention to this fact: that through the instrumentality of that company money has been obtained at low rates for needed public improvements, and that it is desirable that it should

continue to be able to obtain money at low rates for these needed improvements which should go on. Why is it that people have been and are willing to buy these stocks at these high prices and these bonds at these high prices, thus giving money for public improvements at this low rate? You say because they are safe. But — are they safe? *Because the Legislature has wisely left the question of rates alone.*

Since 1870 the Commonwealth of Massachusetts has supervised these railroads by a commission which examines, which hears, which recommends. Its recommendations as to rates have been complied with always, and investors know that the Commonwealth of Massachusetts is not, by its legislative action, which is necessarily based upon imperfect examination, — there is not time enough for anything more, — the Legislature of Massachusetts is not going to arbitrarily touch the revenues out of which the interest upon these investments is paid. But if you once pass in Massachusetts an arbitrary law for two cents per mile or two and one-quarter cents per mile, or any other rate, which is *arbitrarily fixed by the Legislature*, establishing a precedent of fixing the rates by legislative action so that every year you will have the thing in your hands, you will be putting rates where you think they ought to be, — if you do that, do you suppose trustees, small investors, and savings banks are going to buy stocks and bonds of railroads whose returns depend upon legislative action, the arbitrary regulation of rates by the Legislature? Of course not. Is any savings bank justified in putting the money of its small depositors in securities where the return upon them may be dealt with by the Legislature?

The subject-matter of railroad rates is one that requires the most careful investigation, the fullest examination; it is a vital thing, and our Legislature has always left it primarily to the supervision of the Railroad Commissioners, who have exercised the power, I think, wisely and well. They have called for reductions, and they have been made;

they have recommended changes, and they have been made; they have heard and they have examined, and the result of this method of supervision has been to give Massachusetts probably as good a railway service at as low a rate on the whole as exists anywhere on the face of the globe; not perfect, but better than anybody else has. Now, gentlemen, if you are to require these large expenditures to be made you must allow the revenues of the railroads to remain subject to the same supervision which has existed over*them for thirty years, first by the Railroad Commission, and second, if there be need, as there has not been so far, by the Legislature.

But I ought to call your attention to some other items of expense, or you may think I have named them all. Outside of Massachusetts and in Massachusetts upon lines other than the Old Colony, the New York, New Haven & Hartford Railroad Company has had to meet and must meet other very large expenses. Under the Old Colony lease these sums required to be paid for improvements are paid for by the issue of Old Colony stock. Under the Providence lease the lessee makes the improvements. The New England Railroad was consolidated and became part of the New Haven, so that all the expenses upon those lines, the Providence line and the New England line, have been met and are to be met by the New Haven, and are not in the account which I have given you of over \$6,000,000 spent on the Old Colony road, and of the prospective expenses at Fall River, Taunton, and elsewhere on the Old Colony road. Now, on the New England line, on the Providence line, on the line of the New Haven itself, from July, 1896, to December 31, 1902, there have been expenditures made which are shown on that list. (Referring to a list of expenditures.) They amount to over \$16,000,000, for permanent improvements.

One item in this statement I desire to call attention to — the abolition of the Congress-street grade crossing, for the benefit of the Commonwealth of Massachusetts in reaching

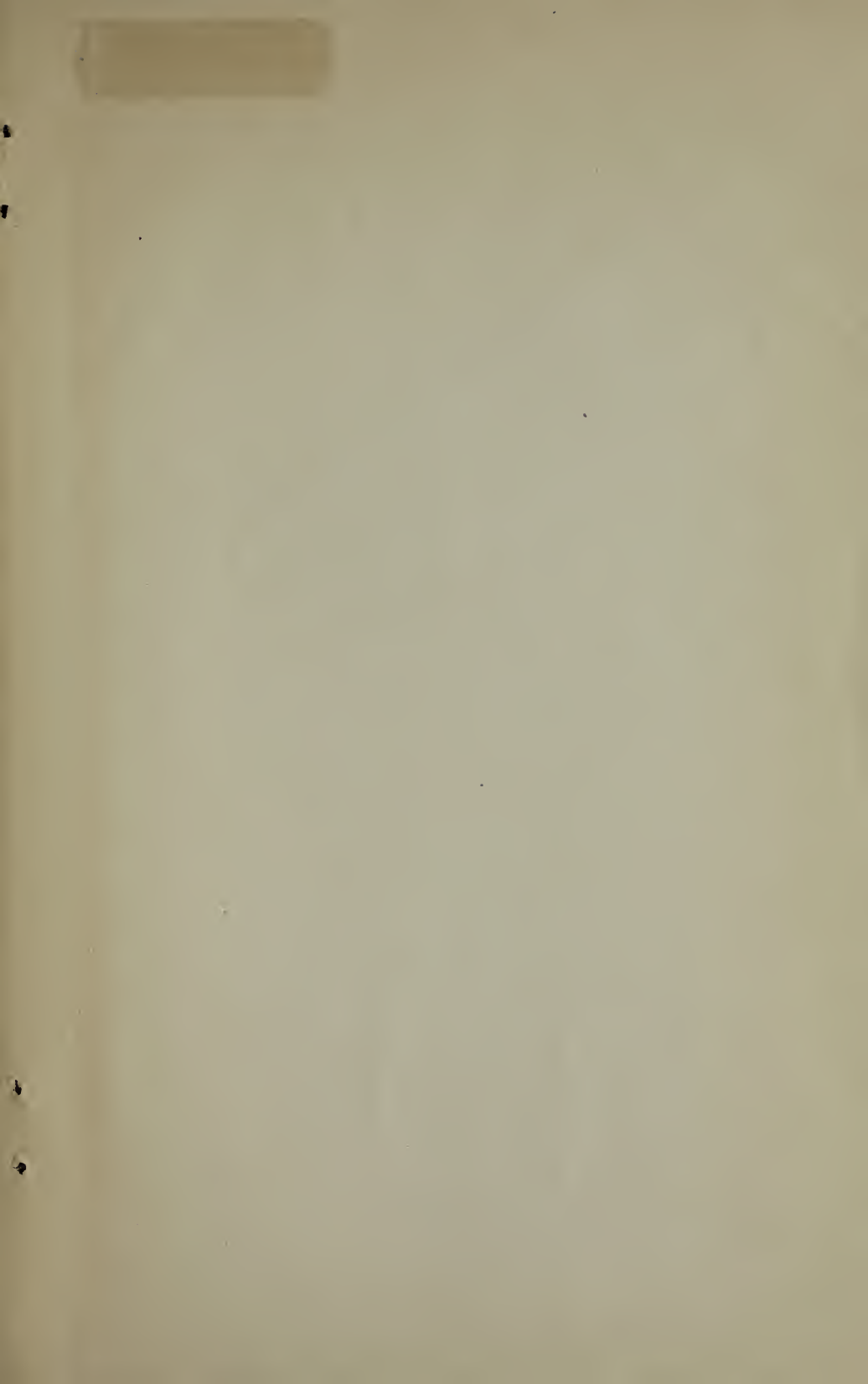
its lands, more than for anybody else. That single improvement has required an expenditure to the present time by the New York, New Haven & Hartford Railroad of \$413,563. Mattapan, which is the Blue Hill avenue I have been talking about in another hearing, \$122,000. Boston & Providence Railroad, the raising of the grade in this city, \$4,500,000. Bridgeport improvement, \$1,884,000; and it may come up to over \$3,000,000 before it is finished. Readville car shops, one of those shops that our Hyde Park friend told you the other day had improved that town, and which have been built in Hyde Park, \$706,000. Dedham and Hyde Park improvement, the abolition of grade crossings in those two towns that are asking to have Boston help build highways within their limits, \$689,677. All this has been paid out by the New York, New Haven & Hartford Railroad. The Pittsfield improvement, \$100,540; Boston freight terminal, \$16,000. Springfield freight yard improvement, \$15,000. And so on. I will leave the list with the committee if they want to see it. So you see that on the lines of the New York, New Haven & Hartford road, outside of the Old Colony line, in Massachusetts and out of it, in those six years, there have been spent by the company over \$16,000,000; and the largest part of it has been spent in Massachusetts. But if you add only half of that as having been spent in Massachusetts to the \$6,000,000 which has been paid by the Old Colony stock for improvements on that line, you will have over \$12,000,000 spent in Massachusetts by this company since the lease of the Old Colony to the New York, New Haven & Hartford in 1893. And that does not take into account the more than \$10,000,000 spent in terminal property in Boston, which really is a railroad expense, because the interest charges upon it must be paid out of railroad earnings. I believe all these improvements have been wise, and I know they have been made upon securities issued at a low rate to the investor, *because the Legislature has not attempted itself to fix the rates which railroads should charge.*

Now, you cannot fix the other side of the account. All a railroad amounts to financially is a fluctuating margin between what it *must* pay out and what it *can* take in. You cannot say how much we shall pay for labor, which is 60 per cent. of all our expenses. You cannot say how much we shall pay for materials; you practically cannot say what we shall pay for taxes. Our system of taxation is established, we have to submit to it, we have to pay taxes higher or lower with other people, and we ought to.

The only thing that you can deal with in the financial operation of a railroad is its revenues. You cannot regulate the other side of its account. Causes beyond anybody's control regulate that, and here are some of them: Take the item of coal. Based upon the consumption of 1900, the cost of coal to the New York, New Haven & Hartford Railroad for the last year has been \$996,196.11 more than it was upon the rates that prevailed in 1900; practically \$1,000,000. Wages have been increased. You have heard that stated by the men themselves. Other increases are asked for by the men. Certainly there is nothing more desirable for the public than that the men who manage these great railroad highways should be well paid and contented. And their reasonable demands must be met. As the price of living increases, as the price of rent increases, a man must have more in order to meet his expenses.

I have here a table which I will hand to the clerk showing the increase in the cost of materials in 1902 over 1899: castings, lumber, spikes, waste, hardware, window glass, frogs, and all that sort of thing which we have to buy. One item only, cross-ties, No. 1, is at the same price. All the other items have increased all the way from 7 per cent. to 50 per cent. We cannot help it; commercial causes control it; you cannot help it. But you can allow the wise and sensible policy of Massachusetts as to the supervision of railroad rates to still prevail. And that is what I ask you to do.







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